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Annual Report

Red Owl Stores, Inc.

1949



1950

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Twenty-eighth Annual Report

RED OWL STORES, INC.

General Offices—HOPKINS, MINN.

BOARD OF DIRECTORS

FORD BELL	Wayzata, Minn.
ALF L. BERGERUD	Minneapolis, Minn.
J. C. CORNELIUS	Minneapolis, Minn.
JOHN Y. DEAR	Hopkins, Minn.
GLENN R. GRIFE	Minneapolis, Minn.
RICHARD L. KOZELKA	Minneapolis, Minn.
J. F. RINGLAND	Minneapolis, Minn.
HENRY C. STEPHENSON	Minneapolis, Minn.
H. J. WORRELL	Minneapolis, Minn.

OFFICERS

FORD BELL	President
GLENN R. GRIFE	Executive Vice President
ALF L. BERGERUD	Vice President
JOHN Y. DEAR	Vice President
W. C. METZGER	Vice President
H. J. WORRELL	Vice President
HENRY C. STEPHENSON	Treasurer and Asst. Secy.
L. A. LUDEKING	Secretary and Asst. Treas.
RICHARD H. WHITE	Assistant Secretary
F. D. SCOTT	Controller

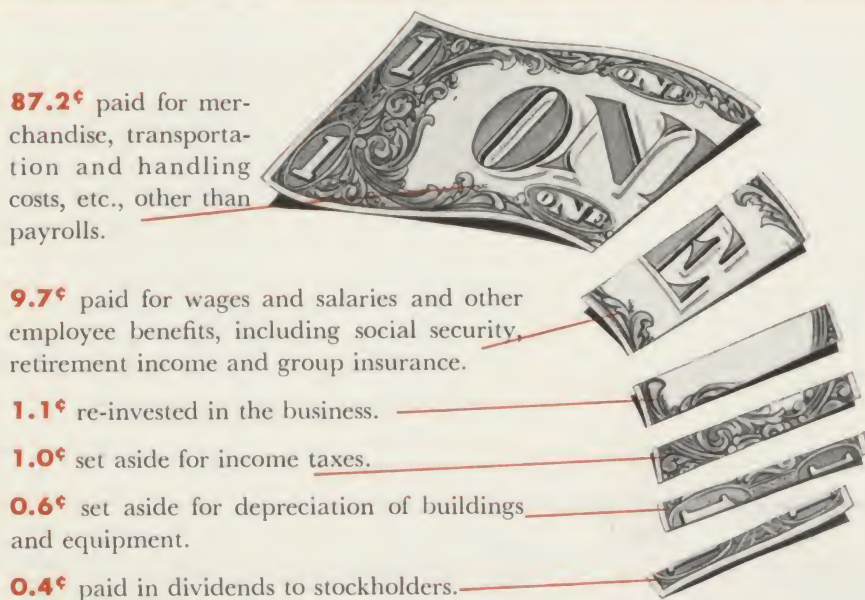
Executive Offices: 215 E. Excelsior Avenue, Hopkins, Minn. — Mailing Address: Post Office Box 1128, Minneapolis, Minn. — Stock Transfer Agent: Northwestern National Bank of Minneapolis. — Auditors: Peat, Marwick, Mitchell & Co.



The Year's Work

WE RECEIVED from the sale of goods and services	\$69,695,771
WE PAID for merchandise, transportation, handling costs, rents, maintenance, and general operating expenses other than payrolls	60,776,630
WE PAID to our employees in wages and salaries, and for other employee benefits including social security, retirement income, and group insurance	6,745,413
WE SET ASIDE for depreciation of buildings and equipment	398,051
WE SET ASIDE for federal and state income taxes	718,592
THIS LEFT US as earnings	1,057,085
Out of these earnings	
We paid to our preferred stockholders as dividends	\$ 71,250
We paid to our common stockholders as dividends	195,310
And we reinvested in the business	790,525

How the Sales Dollar was divided . . .



To the stockholders and employees of Red Owl Stores, Inc.



With the help and co-operation of our customers, our employees, and our stockholders, Red Owl Stores continued to grow during our twenty-eighth year.

Once again, our customers helped us push our sales figures to the highest level in the company's history. With the adoption of an expense control system, and the co-operation of our employees, our earnings also were the highest in our history. At the same time, our taxes were higher than last year, and it was necessary to set aside a greater amount for depreciation. Our preferred stockholders received the regular dividends of \$4.75 and our common stockholders received 10 cents per share in each of the first two quarters of the year, and 15 cents per share in each of the last two quarters—a total of 50 cents per share on common stock. This was the 16th consecutive year in which our stockholders have received dividends on the stock.

Sales

During the year ending February 27, 1950, our customers purchased goods and services totaling \$69,695,771, an increase of \$1,087,102 or 1.6% over the previous year. This gain is a reflection of a much larger percentage increase in sales at wholesale, since retail sales decreased slightly. Retail sales of \$50,822,144 represented a decrease of 1.8%. Sales at wholesale were \$18,873,627, an increase of 12% over last year. The decrease in retail sales and the increase in sales at wholesale were due in part to the conversion of smaller retail units into profitable wholesale accounts, and the acquisition of other new agency accounts.

Earnings

Consolidated earnings for the year were \$1,057,085 as against \$773,097 for the previous year. Earnings were \$2.52 per share of common stock after preferred stock requirements were met, compared to \$1.80 for the previous year. Earnings accounted for ~~1.52¢~~ of each sales dollar for the year, compared

to ~~1.13¢~~ the previous year. The elimination of smaller retail units, and the conversion of many of them into profitable agency accounts, mentioned above, together with the continuation of the over-all expense control program, has accounted in large part for the increase in earnings for the past several years. The company has also continued its policy of absorbing some of the increased costs of doing business in order to hold down food costs for the families in its area.

Dividends

Our stockholders received in dividends for the use of their money a total of \$266,560 during the year. Preferred stockholders received \$71,250—\$4.75 per share—on their stock, and common stockholders received \$195,310—50 cents per share—on their stock. In both cases, this was the same as they received last year. It is worth noting that our stockholders received \$1 in dividends for every \$25 paid to our employees.

Personnel

During the past year our employees received a total of \$6,501,483. This was divided up among 2,250 full-time and 650 part-time people. 1,778 Red Owl people and their families participated in our Group Insurance and Hospitalization Plan, and 359 received benefits therefrom. During the year the company set aside \$119,672 for the Retirement Program, which is non-contributory on the part of employees. This program was explained in detail in a letter sent to every employee. The company's training program, aimed in part at a reduction in personnel turnover—a perennial problem in the grocery business—was strengthened. The company's area was redistricted for supervisory purposes and a new unit supervision system was installed in the interests of greater efficiency and central-

MODERN EQUIPMENT and expert services are available at all times in our home office dispensary. Here Mrs. Laura Taylor of the personnel department is treated by Miss Bernice Stevens, R.N.



ized control. The company has long felt that its greatest asset lies in the loyalty, integrity, and industry of its people, without whom Red Owl could never have advanced to the position it now holds in the retail food business.



NINE YEARS WITHOUT AN ACCIDENT! Ralph Pagel, left, and Ernest Mertens, drivers working out of our Fargo warehouse, last year received their ninth consecutive safe driving awards, given each year to those drivers who do not have an accident during the year.



TWENTY-EGHT YEARS of service make Paul Nickel, assistant to the president, second oldest employee.

Directors

All eight members of the previous year's board of directors were re-elected and, in addition, one new director, Richard L. Kozelka, Dean of the School of Business Administration of the University of Minnesota, was elected at the adjourned annual meeting June 22, 1949. The election of Mr. Kozelka makes a total of three directors who are not also actively connected with the operation of the business, but who bring to the Corporation the experience and judgment gained in other fields.



Ford Bell



Alf L. Bergerud



J. C. Cornelius



J. Y. Dear



Glenn R. Grife



Richard L. Kozelka



J. F. Ringland



Henry C. Stephenson



H. J. Worrell

Merchandising

The increase in sales noted earlier in this report is again attributable in large part to the company's policy of aggressive merchandising. Perhaps the most important part of our merchandising program has been the continuation of the streamlining operation whereby we have been eliminating the smaller stores in favor of larger, modern super markets. We now have 190 corporate stores, nine less than a year ago, and 536 agency stores, 60 more than a year ago. This relatively large increase in agency stores was made possible partly through the increased warehouse facilities described in last year's report. A new supervisory system of unit control has resulted in greater efficiency and economy in supervision of the individual corporate stores. We are continuing to experiment with self-service meat departments. Our "Clean and Bright" program has resulted in marked improvement in the attractiveness of our stores. Our advertising and promotional campaigns have continued to be timely, consistent, and aggressive. We feel that we have more than kept pace with our competition in a business in which merchandising has been developed to perhaps its highest degree.



HARVEST QUEEN COFFEE and Harvest Queen bread, two of Red Owl's most important private labels, are the mainstays of this between-meal snack. And this man really knows the coffee he's drinking—he's Stancon Balcom, in charge of the Red Owl coffee roasting plant at Hopkins, Minn.

Facilities

During the year, 3 new super-markets were opened while 9 stores were moved into new buildings and locations. In addition, major renovations and complete remodelings were made in 30 stores. The new Fargo warehouse fully justified its construction as it enabled us to serve our Northern Division stores in the same manner in which the Hopkins warehouse has been serving the Southern Division.



NEW SUPER MARKET. By early summer, this new super market at St. Anthony village, just outside Minneapolis, will be opened to the public as part of a new shopping center.

Other Financial Information

During the year our bank loans, which amounted to \$900,000 at the beginning of the period, were completely retired. This was made possible through rigid control of capital expenditures, relatively satisfactory turnover of inventory, and retention of a large part of earnings in the business.

The Future

Looking ahead to the coming year, we realize the necessity for continuous improvement in our products and services. The general level of business activity in our trade area appears to be holding up well. However, competition is becoming increasingly active in the retail food business. It is our sincere conviction that Red Owl is prepared to meet this challenge and to take advantage of its opportunities. Our facilities are continually improving; our methods of operation have been streamlined. But most important of all are the 2,900 men and women in the Red Owl organization. Their initiative and their loyalty have been the measure of our success up to now. And we would like to take this opportunity to thank the stockholders of Red Owl for continuing to invest their savings in this company, thereby providing employees and management with the tools and facilities which will enable us to continue to move ahead in the coming year.

STATEMENT OF OPERATIONS AND EARNINGS REINVESTED IN BUSINESS

RED OWL STORES, INC., and Subsidiary Companies

For the years ended February 27, 1950 and February 28, 1949

	YEAR ENDED	
	FEB. 27, 1950	FEB. 28, 1949
Net retail sales.....	\$50,822,144	51,760,110
Net wholesale sales.....	18,873,627	16,848,559
Gain on sale of property and equipment, excluding warehouse property shown separately below..	39,060	119,054
Other income (net).....	12,003	49,800
Total Gross Revenue.....	69,746,834	68,777,523
Costs:		
Cost of goods sold, including warehousing and transportation expenses (note 6).....	59,286,067	58,583,718
Selling, general and administrative and other operating expenses (notes 5 and 6).....	8,626,866	8,877,473
Interest:		
On long-term debt.....	42,000	45,000
Other.....	16,224	29,235
Provision for income taxes (excluding \$59,050 applicable to gain on sale of warehouse property shown separately below):		
Federal.....	648,499	438,880
State.....	70,093	30,120
Total Costs.....	68,689,749	68,004,426
Earnings for Year.....	1,057,085	773,097
Deduct Dividends on Red Owl Stores, Inc. capital stock:		
4¾% cumulative preferred stock, Series A...	71,250	71,250
Common stock—\$.50 per share.....	195,310	195,310
	266,560	266,560
Earnings for year reinvested in business.....	790,525	506,537
Balance of earnings reinvested in business at beginning of year.....	2,743,057	1,980,886
Gain on sale of warehouse property leased back by purchaser, less related income taxes, \$59,050 (note 6).....	133,147	—
Reserves for Contingencies (\$100,000) and Insurance (\$115,466) and excess portion (\$40,168) of allowance for doubtful accounts eliminated....	—	255,634
Balance of earnings reinvested in business at end of year (note 4).....	\$ 3,666,729	2,743,057
Charges for depreciation and amortization of fixed assets and leasehold improvements included in costs above.....	\$ 525,414	456,638

See accompanying notes to financial statements.

STATEMENT OF FINANCIAL POSITION ★

As of February 27, 1950

ASSETS

	FEB. 27, 1950	FEB. 28, 1949
CURRENT ASSETS:		
Cash in banks and on hand	\$ 1,012,844	999,350
United States Government Securities, at cost	9,037	9,037
Accounts receivable:		
Customers	688,805	729,293
Due from vendors, claims, etc.	164,587	325,370
	853,392	1,054,663
Less allowance for doubtful accounts	92,897	95,210
	760,495	959,453
Merchandise inventories, less \$285,000 reserve, (note 2)	4,777,289	4,425,291
Prepaid expenses	123,948	152,509
Total Current Assets	6,683,613	6,545,640
CASH SURRENDER VALUE OF LIFE INSURANCE	22,966	20,673
PROPERTY, PLANT AND EQUIPMENT—at Cost:		
Land	146,723	173,136
Buildings	132,807	284,381
Furniture, fixtures and equipment	2,907,019	2,866,355
Automotive equipment	937,229	791,107
	4,123,778	4,114,979
Less depreciation	1,706,007	1,562,668
	2,417,771	2,552,311
Leaschold improvements, at cost, less amortization	1,029,340	1,146,716
	3,447,111	3,699,027
OTHER ASSETS	56,348	65,448
	<u>\$10,210,038</u>	<u>10,330,788</u>

See accompanying notes



RED OWL STORES, INC., and SUBSIDIARY COMPANIES

and February 28, 1949

LIABILITIES

	FEB. 27, 1950	FEB. 28, 1949
CURRENT LIABILITIES:		
Notes payable:		
Current instalments of long-term notes.....	\$ 100,000	100,000
Demand notes due to banks.....	—	900,000
	<u>100,000</u>	<u>1,000,000</u>
Drafts payable.....	—	65,826
Accounts payable.....	1,417,858	1,698,977
Dividend payable on preferred stock.....	17,812	17,812
Accrued expenses.....	379,905	299,795
Provision for Federal and State income taxes.....	721,525	499,112
Total Current Liabilities.....	<u>2,637,100</u>	<u>3,581,522</u>
LONG-TERM 4% NOTES PAYABLE due November 1, 1959, payable in annual instalments of \$100,000 each com- mencing November 1, 1951, exclusive of current instalment set forth above (note 4).....	900,000	1,000,000
STOCKHOLDERS' EQUITY:		
Capital Stock (notes 3 and 4):		
Preferred stock—par value \$100 per share:		
Authorized 25,000 shares, issued and outstanding 15,000 shares 4¾% cumulative, Series A.....	1,500,000	1,500,000
Common stock—par value \$3 per share:		
Authorized 750,000 shares, issued and outstanding 390,620 shares.....	1,171,860	1,171,860
	<u>2,671,860</u>	<u>2,671,860</u>
Additional amounts paid in by stockholders, less ex- penses in connection with stock issue.....	334,349	334,349
Balance of earnings reinvested in business, per accom- panying statement (note 4).....	3,666,729	2,743,057
	<u>4,001,078</u>	<u>3,077,406</u>
Long-Term Lease Commitments (note 6)		
	<u>\$10,210,038</u>	<u>10,330,788</u>

to financial statements.

NOTES TO FINANCIAL STATEMENTS

Red Owl Stores, Inc., and Subsidiary Companies

1. CERTAIN FIGURES for the year ended February 28, 1949, presented for comparative purposes, have been reclassified to conform with the classification adopted for the year ended February 27, 1950.

2. MERCHANDISE INVENTORIES at retail stores and principal warehouses are based on book inventories adjusted to physical counts taken from time to time during the year in the case of the retail stores and on a continuous basis in the case of the principal warehouses; other inventories are based on year-end physical counts. The inventories are stated at cost (first-in, first-out basis) determined in the case of the retail stores by the application of mark-up percentages to retail book inventories.

3. THE 4¾% CUMULATIVE preferred stock, Series A, is redeemable on call and on voluntary liquidation at \$107 per share to January 1, 1952, \$106 per share from that date to January 1, 1957, and \$105 per share thereafter, plus dividends accrued or in arrears to the redemption date. Shares of such preferred stock (taken at \$100 per share) are convertible into common stock at the following prices:

\$14.50 per share from January 1, 1950 to December 31, 1952

\$16.00 per share from January 1, 1953 to December 31, 1954

\$18.00 per share from January 1, 1955 to December 31, 1956 (at which date conversion privileges expire)

In connection with the foregoing, 103,448 shares of authorized and unissued common stock are reserved for issuance

upon conversion of preferred stock. The conversion prices are subject to adjustment in certain instances specified in the "Certificate of the Designations, Preferences and Relative, Participating, Optional or Other Special Rights of the 4¾% Cumulative Preferred Stock, Series A, of Red Owl Stores, Inc.," which also sets forth certain restrictions on the issuance of additional shares of preferred stock, increase of funded debt and sale of property.

4. CERTAIN RESTRICTIONS are placed upon payment of dividends (except stock dividends) and purchase, redemption or retirement of capital stock under the terms of the agreement relating to the 4% serial notes dated November 1, 1944; the amount available for such distribution at February 27, 1950, was \$1,915,653. In view of the foregoing, like restrictions under the preferred stock requirements of the certificate of incorporation as amended, and Board of Directors' resolution authorized thereunder, are not applicable.

The note agreement also provides that the long-term debt may be prepaid at the option of the company at varying premiums and among other conditions, sets forth certain working capital requirements, which were maintained at February 27, 1950.

5. SELLING, general and administrative and other operating expenses for the years ended February 27, 1950, and February 28, 1949, include for the respective periods, under plan approved by stockholders June 24, 1947, estimated amounts of \$110,000 and \$47,500 pro-

vided for profit sharing for employees. Officers participated in the year ended February 27, 1950 only.

6. RENT EXPENSE included in costs for the years ended February 27, 1950 and February 28, 1949 amounted to \$666,860 and \$626,925 for the respective periods. The approximate minimum annual rentals under 73 leases expiring beyond February 28, 1953, are \$467,000, of which 54 leases with annual rentals of \$141,000 expire within five years; 5 leases with present annual rentals of \$253,000 have terms extending beyond twenty years.

These amounts exclude maintenance costs, real estate taxes, insurance, etc., which are paid in accordance with the terms of most warehouse leases and certain store leases. During the year ended February 27, 1950, the company sold three store properties (constructed during the year) for approximately \$315,000, and one principal warehouse for \$300,000; such properties were leased back by the purchasers to the company for initial terms of 20 years (except one store property leased for 27½ years) at annual rentals aggregating approximately \$41,000.

PEAT, MARWICK, MITCHELL & CO.

NEW YORK
ATLANTA
BALTIMORE
BOSTON
CHICAGO
CINCINNATI
DALLAS
DENVER
DETROIT
GREENSBORO
HARTFORD
INDIANAPOLIS
KANSAS CITY
LOS ANGELES
MEMPHIS
MINNEAPOLIS
NEW ORLEANS
NEW YORK
PHILADELPHIA
PITTSBURGH
PORTLAND
ST. LOUIS
ST. PAUL
SAN FRANCISCO
SEATTLE
TULSA
WASHINGTON
WORCESTER

NORTHWESTERN BANK BUILDING
MINNEAPOLIS 2, MINN.

Accountants' Report

To the Board of Directors,
Red Owl Stores, Inc.,
Hopkins, Minnesota.

We have examined the statement of financial position of Red Owl Stores, Inc. and subsidiaries as of February 27, 1950 and the related statement of operations and earnings re-invested in business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement of financial position and related statement of operations and earnings reinvested in business present fairly, on a consolidated basis, the financial position of Red Owl Stores, Inc. and subsidiaries at February 27, 1950 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

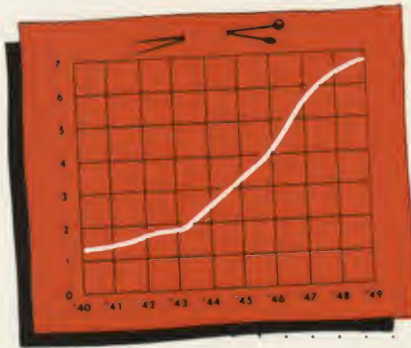
Peat, Marwick, Mitchell & Co.

Minneapolis, Minnesota
April 28, 1950.

SALARIES AND WAGES

Calendar Years Ended December 31, 1940-1949

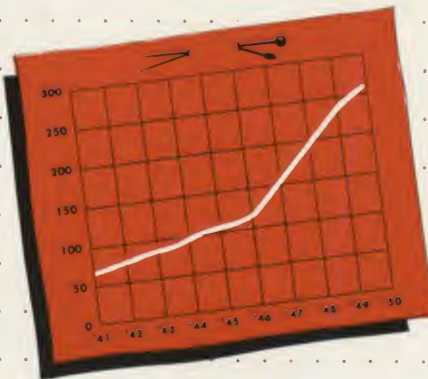
YEAR	TOTAL
1940	\$1,406,508.72
1941	1,547,761.70
1942	1,818,294.08
1943	1,970,701.83
1944	2,678,119.19
1945	3,250,139.98
1946	4,188,294.60
1947	5,738,110.48
1948	6,479,450.24
1949	6,569,483.65



AVERAGE RETAIL SALES PER LOCATION

Fiscal years ended March 3, 1941 through February 27, 1950

YEAR ENDED	TOTAL
1941	\$ 72,819
1942	81,490
1943	92,347
1944	102,448
1945	110,816
1946	121,952
1947	156,833
1948	202,579
1949	230,600
1950	257,656



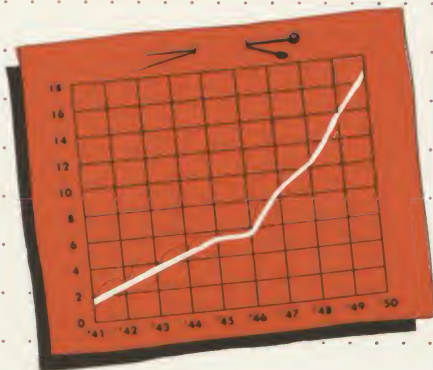
SALES TO AGENCY STORES

Fiscal years ended March 3, 1941 through February 27, 1950

YEAR ENDED

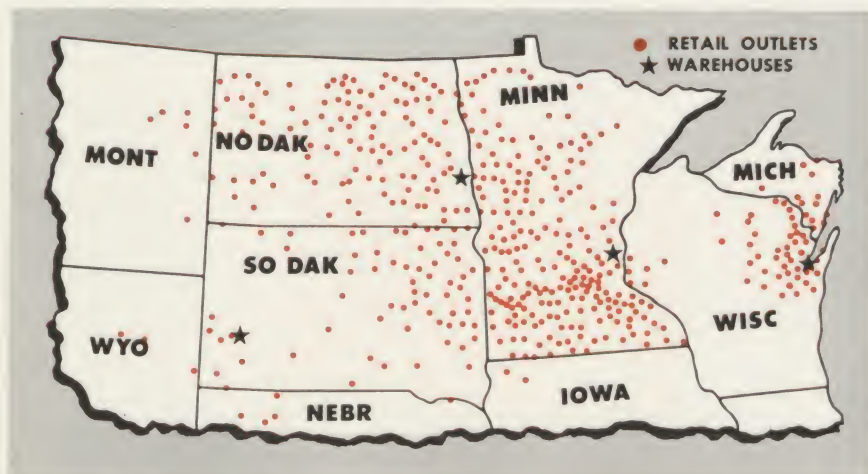
TOTAL SALES TO AGENCIES

1941	\$ 1,717,640
1942	2,642,471
1943	3,807,952
1944	4,281,165
1945	5,051,800
1946	5,943,875
1947	8,757,460
1948	10,128,841
1949	13,823,601
1950	16,743,504



FACILITIES MAP

Location of Red Owl Stores



RED OWL now operates 190 corporate retail stores in nine states, with the bulk of them in Minnesota, the Dakotas, and Wisconsin. In addition, there are now 536 agency stores in the same area, 60 more than a year ago.



*For further information about the activities
and policies of Red Owl Stores, please feel
free to write to . . .*

RED OWL STORES, INC.

HOPKINS, MINNESOTA